

P 091000Z JAN 09
FM AIT TAIPEI
TO SECSTATE WASHDC PRIORITY 0688
INFO CHINA POSTS COLLECTIVE
AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMEMBASSY WELLINGTON
AMCONSUL CHIANG MAI
AMCONSUL HO CHI MINH CITY
NATIONAL SECURITY COUNCIL WASHINGTON DC
DIA WASHINGTON DC
DEPT OF TREASURY WASHINGTON DC
JICPAC HONOLULU HI
USPACOM HONOLULU HI
DEPT OF COMMERCE WASHINGTON DC
SECDEF WASHINGTON DC
CIA WASHINGTON DC

C O N F I D E N T I A L AIT TAIPEI 000033

STATE FOR EAP/TC
STATE PASS USTR FOR STRATFORD AND ALTBACH, TREASURY FOR
OASIA/MPISA,
NSC FOR LOI, COMMERCE FOR 4431/ITA/MAC/AP/OPB/TAIWAN

E.O. 12958: DECL: 01/08/2018
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [TW](#)
SUBJECT: SLUMPING EXPORTS DARKEN TAIWAN'S 2009 ECONOMIC
OUTLOOK

REF: 08 TAIPEI 1756

Classified By: Economic Chief Hanscom Smith for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY. Although Taiwan's official 2008 GDP growth forecast remains at 2.12%, a 42% year-on-year drop in December exports underscored the economy's vulnerability to slumping global demand. The weak export data prompted the Central Bank to cut its policy rate by 0.5% to 1.5%, and caused the stock exchange to shed 5.3% of its value on January 8, followed by an additional 0.7% drop on January 9. Since exports account for roughly 65% of Taiwan's GDP, the economy seems assured of a rough ride in 2009. Most private forecasters are now predicting 2009 GDP growth in the negative 1-2% range, and analysts are skeptical that government stimulus programs will be effective enough to mitigate the slumping export sector. END SUMMARY.

¶2. (C) Tsai Hung-kun, Director of the Bureau of Statistics at the Directorate General of Budget, Accounting, and Statistics (DGBAS), told us lower-than-expected export numbers for November and December 2008 will prompt a downward revision in the 2008 official GDP growth rate, which now stands at 1.87%. DGBAS will not release its first-half of 2009 growth prediction until next month, but Tsai indicated that the deteriorating export picture will result in a downward revision of the current 2.1% forecast, which was made in November. Tsai said external demand for Taiwan's exports is unlikely to start recovering until late in 2009. Since exports are worth approximately US \$260 billion annually to the Taiwan economy, he explained, the roughly US \$5 billion in official stimulus measures (reftel) will have limited impact in offsetting the export decline.

¶3. (C) According to Taiwan Institute for Economic Research (TIER) economist Steven Yang, December's 42% year-on-year (yoy) drop in exports was unexpectedly large, particularly on the heels of a yoy export decline of about 30% in November. Taiwan is now feeling the impact of weakening demand in China and the U.S., the island's two most important export markets. Yang said the Central Bank's January 7 decision to cut the prime rate by 0.5%, to 1.5%, was appropriate, but also applauded Central Bank Governor Perng's stated opposition to

a "zero interest rate" policy. With Taiwan's savings rate at over 20%, explained Yang, excessively low rates could reduce interest income and hurt consumption. In Yang's view, the Central Bank is also focused on keeping the New Taiwan Dollar (NTD) relatively weak, thereby helping Taiwan's exporters. Yang sees government stimulus measures, especially infrastructure spending (reftel), as a critical means of mitigating the slowdown, but stressed that much depends on the timeliness and efficiency of implementation.

¶4. (C) Daigee Shaw, who heads the Chunghwa Institution for Economic Research (CIER), stresses that Taiwan's economic health depends largely on consumer demand in the U.S., which accounts for 12% of Taiwan's direct exports, plus an undetermined additional amount in indirect exports via Taiwan exporters based in China and elsewhere. Shaw was skeptical about the effectiveness of Taiwan's economic stimulus measures, however, observing that the Ma administration does not seem to have done sufficient cost-benefit analysis in planning its spending. He worried about the prospect of a government stimulus "bubble" distorting Taiwan's long-term economic recovery.

¶5. (C) Shaw's concerns were echoed by KMT legislator Liao Cheng-ching, who told us the Ma administration's consumption voucher program (reftel) appears to have fulfilled a political goal of increasing public sentiment that the government is tackling the crisis, but may not prove economically effective in practice. Liao criticized the administration as too slow in implementing its policies, and maintained that the majority of planned public infrastructure spending (reftel) would not be disbursed until the second half of 2009.

¶6. (C) COMMENT. While Taiwan's financial sector remains essentially sound, the island's vital export sector is being buffeted by the drop in global demand. Official stimulus measures may help ease the blow, but will have limited impact if the export sector remains as weak as it was at the end of 2008. END COMMENT.

SYOUNG